

The Henry Smith Charity

founded in 1628

**Annual Report &
Financial Statements
For the Year Ended
31st December 2018**

THE HENRY SMITH CHARITY
Registered Charity 230102

**ANNUAL REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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Chairman's Review

I was not expecting to be writing this report as acting chairman of the charity this time last year. As Deputy Chairman and at the request of my fellow Trustees, I agreed to step into the role of Acting Chairman in December 2018.

I would like to thank Diana Barran who, following the required protocol, stood down as Chair and from our board in November following her appointment to the front benches in the House of Lords. On behalf of the Charity and my fellow Trustees I would like to congratulate Diana on her appointment and thank her for her contribution over sixteen years as a Trustee and three years chairing the Charity. With her unusual combination of direct experience of both the investment world and of running a charity she made a huge contribution. We anticipate the appointment of a permanent successor to Diana during the course of the coming year.

2018 was an exciting year for our grantmaking as it was the first full year of our new main grants strategy. During the year we awarded £31.8m of grants (2017: £31.1m). Of this £28.6m was awarded under the new strategy split between the two new programmes, Improving Lives (80%) and Strengthening Communities (20%).

We awarded a total 240 main grants of an average size of £118,000 compared to 321 grants of an average size of £87k in the previous year. This was almost exactly in line with our expectation at the launch of the new strategy. It is too early to be able to report on the outcomes of the grants made under Improving Lives but we do already know that the Strengthening Community grants have been successful in reaching some of the most disadvantaged communities in the UK.

During 2018 we approved an organisational plan covering the next three years which includes investment in additional staff in order to implement our strategy which includes increasing the learning from our grantmaking and better understanding our impact and effectiveness. Our overall aim continues to be to use our resources as effectively as possible in pursuit of the positive social impact of the work we support, so any increase in spending on internal resource has to be justified in this context.

Investment performance was relatively flat in 2018 after several years of excellent returns. Our portfolio performed well in relation to its benchmarks but the net total return for the year at £3m was well short of our long-term target of RPI plus 4%. Over the past five years our investments, however, have outperformed this target by 1.7% per annum. Looking forward we feel we may face a more challenging investment environment.

I am delighted to be able to report that following an external recruitment process we appointed four new Trustees who are joining the Board over the course of this year. These new Trustees have been recruited to replace the skills we have recently lost due to retirements and in anticipation of other scheduled retirements over the coming year.

Finally my thanks go to my fellow Trustees, the staff team, our unique network of volunteer visitors and the community foundations who carry out assessments on our behalf and to the many wonderful organisations we are privileged to support without whom our funding would achieve nothing.

Noel Manns
Acting Chairman

Report of the Trustees

Trustees

D Allam	D Barran (retired November 2018)
B Biddell (retired March 2019)	A Colgrain
V Dews	E Feisal
P Feilden	M Giedroyc
M Granger (appointed January 2019)	P Hackwood
J P Hordern	V Y Hunt (retired June 2019)
B Kernighan (appointed January 2019)	N G H Manns
P R V Maxwell (retired June 2019)	A McNair Scott

D Allam and V Dews are also Directors of Henry Smith Trading Limited, the wholly owned subsidiary of the Charity.

Registered Office

65 Leadenhall Street, London, EC3A 2AD

Website

www.henrysmithcharity.org.uk

Director

N Acland

N Acland is also a Director of Henry Smith Trading Limited, the wholly owned subsidiary of the Charity.

Charity Registration

230102

Bankers: Bank of Scotland, 8 Lochside Avenue, Edinburgh, EH12 9DJ

Solicitors: SNR Denton LLP, One Fleet Place, London, EC4M 7WS
DLA Piper UK LLP, 3 Noble Street, London, EC2V 7EE

Auditor: Crowe U.K. LLP, 10 Salisbury Square, London EC4Y 8EH

Investment Custodian: Northern Trust, 50 Bank St, London, E14 5NT

Investment Advisers: Cambridge Associates, 80 Victoria Street, London, SW1E5JL

Property Advisers: LaSalle Investment Mgt, 33 Cavendish Square, London, W1A 2NF
Savills UK Ltd, Stuart House, City Road, Peterborough, PE1 1QF

Report of the Trustees

Overview

Introduction

The Henry Smith Charity was established from a gift of land given during the lifetime of Henry Smith, and bequest upon his death in 1628. Since then, the charity has honoured the spirit of Henry Smith's will, working to combat disadvantage and meet the challenges and opportunities facing people in need throughout the UK. Nearly four centuries after we were first established, The Henry Smith Charity is one of the largest grant-making charities in the UK.

The Henry Smith Charity aims to bring about lasting change to people's lives, helping them to benefit from and contribute to society. We achieve this by providing funding to reduce social and economic disadvantage. Our grantees are at the core of our mission and work.

The charity is registered in England and Wales and governed by a Scheme of the Charity Commissioners dated 5 October 2000 which came into effect on 1 January 2001.

Guiding Principles

The Charity has adopted a set of guiding principles which outline how we aim to work as an organisation. They guide our activity, serve as a reference for our ongoing work, and help to ensure that our actions are consistent with our aspirations. These principles underpin all our grant making activities.

- We aim to continue the legacy of philanthropy established by our founder Henry Smith
- We focus on those social problems where there is an opportunity for our money to make a difference
- We endeavour to maximise the effectiveness of our funding
- We seek to be responsive to demand
- We aim to maintain a rational, pragmatic approach
- We aim to be as helpful as possible to those we seek to assist

Trustees

The Charity is required to have between ten and twenty Trustees. The Trustees are listed on page 2 of this report. New Trustees serve up to two terms of five years each, with provision in exceptional cases for a third term of up to five years. Trustees are appointed following a formal recruitment process, including an assessment of the Charity's needs. Trustee induction includes meeting the office staff, being briefed on procedures, and addressing any training needs they may have. Board effectiveness is maintained and ensured through regular reviews of both Board and individual Trustee performance.

Decision Making

The Board is responsible for all major policy decisions and for approving strategy and objectives. They meet four times a year. Main grants are approved by the Board, but significant decision-making authority is also delegated to the following committees:

- Decisions in respect of some of the Charity's smaller grant programmes are delegated to Trustee Committees, with recommendations and decisions being reported to the Board
- The Governance and Nominations Committee is responsible for ensuring good governance of the charity. The current governance arrangements were formally reviewed and updated in 2013 and we carried out a further review during 2018

Report of the Trustees

- The Remuneration Committee is responsible for determining the Director's and Senior Managers' remuneration
- The Investment Committee is responsible for investment policy, asset allocation and performance monitoring
- The Finance and General Purposes Committee is responsible for planning, budgeting and performance monitoring, organisational policies, staff remuneration, audit and risk management

Day to day operational activities are delegated to the Director and members of the senior management team, comprising the Head of Finance, Head of Grants, Head of Grants Administration and Head of Learning & Evaluation, under a formal schedule of delegations.

Governance Review

During the year the Trustees reviewed the Charity Governance code. We reviewed our governance handbook in light of the code and have decided to work on a statement of organisational purpose. As a grant maker with several programmes, we already ensure that each grant programme has clear objectives, but we have not previously developed an overall statement of purpose that covers the whole organisation, which is recommended by the code. This is something Trustees and staff will be looking at in the course of 2019.

Public Benefit

Trustees have considered the Charity Commission guidance on public benefit when planning future activities, setting grant-making policies and in making grants. The positive social impact anticipated from each grant is considered before a grant is awarded and monitored. This enables Trustees to be confident that the Charity has, through its wide range of grantees, achieved significant public benefit for a number of vulnerable groups across the UK. A diverse range of public benefit is provided by the hundreds of charities we support each year, as they work to alleviate need and distress, and help people lead more fulfilling lives. A summary of our grant making in 2018 is set out below illustrating the work we have supported.

Report of the Trustees

Grant Making Programmes

We awarded grants through a number of different programmes during the year.

Programme	Overview
Main Grants	The main grants scheme funds organisations that work to reduce social and economic disadvantage. Main grants are divided into two separate programmes: Improving Lives and Strengthening Communities. Each of these programmes has a separate set of priorities and guidelines.
County Grants	Grants for smaller organisations working with disadvantaged people and communities in one of eight English counties with which the Henry Smith Charity has a historical connection.
Holiday Grants	Grants for recreational trips and holidays for groups of children aged 13 and under in the UK who are disabled or disadvantaged.
Parishes Grants	Grants for local organisations, based broadly on an allocation set out by the Trustees of Henry Smith's will for the relief of poverty in specified parishes.
Clergy and Christian Projects	Grants to support projects that explicitly promote the Christian faith in the UK.
Kindred Grants	Grants to individuals who are descendants of the sister of Henry Smith or adopted by a descendant. Grants are awarded on a means-tested basis.

Our total grants awarded of £31,858,000 is divided to these programmes in the following way.

Programme	Total Funding Committed
Main Grants	£28,589,000
County Grants	£1,276,000
Holiday Grants	£200,000
Parishes Grants	£566,000
Clergy and Christian projects	£1,000,000
Kindred Grants	£794,000
Less: cancelled grants	(£567,000)
Total Grant Awards	£31,858,000

A full list of the grants we made to organisations over the last year along with the detailed criteria for each grant programme is available on our website (<https://www.henrysmithcharity.org.uk/recently-awarded-grants/>).

Report of the Trustees

Achievements and Performance – Main Grants

£28,589,000

In 2017 we launched a new Main Grants Strategy under which are two programmes: Improving Lives and Strengthening Communities. Both programmes have separate priorities and guidelines.

In total, across both programmes we received 1147 applications and made **241** grants in 2018. A high proportion of these grants were over three years and the average grant size was £118,000. 80% of grants were made through the Improving Lives programme and 20% through Strengthening Communities.

Division of Main Grants by Improving Lives and Strengthening Communities

	Improving Lives	Strengthening Communities
Total number of applications	909	238
Total number of grants	195	46
Success rate	21%	19%

Improving Lives

Through the Improving Lives grant programme we support charitable organisations across the UK to help people for whom other sources of support have failed, been inappropriate or are simply not available. This is our largest funding programme, through which we distribute most of our funds. Grants can be made for core costs (including salaries and overheads) or the running costs of a specific project (including staffing costs).

Number of Improving Lives Running costs and Project Cost grants

Type of grant	Number of grants
Project Costs	128
Running Costs	67

In 2018 our Improving Lives grants funded projects that will directly support **189,200** beneficiaries. We will touch the lives of a further **203,400** beneficiaries through funding running costs of organisations. These are the total number of beneficiaries that projects or organisations expect to support over the course of their Henry Smith grant. They are not the numbers of beneficiaries that are directly attributable to our funding. These numbers are reported during the application process and are monitored through progress reports that all grantees submit annually.

The Improving Lives programme has six funding priorities, which describe the work we fund and how we want to bring about change for the most disadvantaged people in the greatest need. During the application process grantees must demonstrate how the outcomes they deliver meet one or more of these priority areas:

- **Help at a Critical Moment** - Helping people to rebuild their lives following a crisis, critical moment, trauma or abuse
- **Positive Choices** - Helping people, whose actions or behaviours have led to negative consequences for themselves and others, to make positive choices
- **Accommodation / Housing Support** - Enabling people to work towards or maintain accommodation
- **Employment and Training** - Supporting people to move towards or gain employment
- **Financial Inclusion, Rights & Entitlements** - Supporting people to overcome their financial problems and ensure they can claim their rights and entitlements
- **Support Networks & Family** - Working with people to develop improved support networks and family relationships

Report of the Trustees

Help at a critical moment was the most popular priority area selected with 60% of applicants selecting this priority.

Improving Lives grant priorities

Priority	Grants	% of Grants working towards this priority
Accommodation / Housing Support	28	14%
Employment and Training	55	28%
Financial Inclusion Rights and Entitlements	48	25%
Help at a Critical Moment	117	60%
Positive Choices	57	29%
Support Networks and Family	90	46%

*applicants can meet up to 3 priorities during their grant.

Once a grant has been approved grantees report back to us on their progress against agreed outcomes annually for the duration of their grant.

Strengthening Communities

The Strengthening Communities programme supports small grassroots organisations working in the most disadvantaged and deprived areas of the UK. We know that smaller organisations rooted in their communities play a vital role in supporting people to make positive changes. We support these organisations to create lasting solutions to both the individuals and the community. In 2018 we made 46 Strengthening Communities grants. All grants were towards the running costs of organisations. Over the life of these grants, organisations expect to work with **277,000** beneficiaries.

Cause Areas Supported

While the new main grants strategy has tightened our criteria, our grant making focus remains relatively broad and responsive. We aim to respond to the needs identified by applicants, and therefore make grants to charities supporting individuals facing disadvantage in diverse areas of their lives.

Cause areas supported

Cause area	Grants	Rejected Applications
Black and Minority Ethnic (BAME) Communities	7	34
Carers	7	28
Disability	18	68
Disadvantaged Communities	56	210
Domestic and Sexual Abuse	22	42
Substance Misuse and Dependency	6	19
Ex-Service Personnel	0	3
Family Services	25	78
Health Care	0	24
Homelessness	16	44
Learning Disabilities	11	42
LGBTQ	4	4
Mental Health and Wellbeing	20	81
Older People	11	48
Prisoners and Ex-Offenders	10	29
Refugees and Asylum Seekers	10	27
Sex Work, Trafficking and Modern Slavery	1	4
Children and Young People	17	126
Total	241	906

Report of the Trustees

We continue to see a high demand for grants related to domestic and sexual abuse, family support services, mental health and wellbeing, young people and disability.

Geographical Spread

As a UK wide responsive funder running an open grant programme, it is important that we make grants across the UK. The table below shows the number of grants made and applications received in 2018 split by geographical area.

Geographical distribution of grants

Geographical area	Grants	Rejected Applications
East Midlands	7	43
East of England	18	62
London	45	167
North East	13	36
North West	31	111
Northern Ireland	4	28
Scotland	22	120
South East	21	78
South West	20	70
Wales	6	45
West Midlands	18	69
Yorkshire and The Humber	36	77
Total	241	906

We continue to find that much of the work meeting the greatest need is within the most deprived, mainly urban areas of the UK. 50% of our grants are made to organisations based in geographical areas in the bottom 20% on the Indices of Multiple Deprivation. We will continue to review the geographical spread of our grant making to ensure that we are receiving applications from all areas of the UK and that our grant making is targeted to need.

Grant Assessment

At the start of 2018 we revised our assessment process to reflect our new strategy and priorities. We assess the quality of applications against a wide variety of different criteria to ensure that we are achieving our charitable objectives and that we are making robust, transparent and consistent funding decisions. Assessment of the organisations is divided into the following headings:

- Vision, mission and strategy
- Integration into the community
- Financial Eligibility
- Budgeting and fundraising

Assessment of the service(s) provided is divided up into the following headings:

- Need for the service
- Description of the service – Is it clear how the service is making a difference?
- Service impact – How ‘significant’ is the difference?
- Monitoring & evaluation quality
- Ability to deliver – Is the work delivered as intended?

Report of the Trustees

Once an application has passed the initial paper-based assessment, an assessment visit will take place. This enables us to assess the need for the project, ensure the organisation's management and governance are fit for purpose, confirm that the project is sustainable, and the outcomes are both realistic and achievable.

Developing Learning and Evaluation

In line with the wider voluntary sector we are aware of the need to demonstrate the impact of our work. We require those applying to us to demonstrate the outcomes they are achieving and believe we should apply the same rigour to ourselves. This is a challenge, as our grants cover a wide range of services and groups to relieve poverty, deprivation and disadvantage. Over the last year we have been working to put the systems in place to evaluate our work, to measure our performance and help us learn and improve.

To monitor grant outcomes we have reviewed and updated our grant progress reporting process. We now examine the specific outcomes that organisations have achieved in terms of the number of people they work with and the benefit they provide. We have a framework in place to review performance of grants and collect learning about the organisation, the operating environment and lessons learned. Over time we will be able to use the information provided to report on the collective impact of our grant making. We also have enhanced reporting processes for a small number of selected grants. While a full report on this will not be possible until a number of 3-year grants have been completed (in 2021), there will be a good deal of analysis we can do before then to report on progress and identify areas for improvement.

In August 2018 we carried out a survey to gather feedback from applicants and grants holders about our grants programmes and application process. This survey is part of our commitment to continuously improve our systems. Respondents were largely positive about our communications, strategy and applications process. Some areas for improvement were highlighted that will help us plan and improve our programmes and communication going forward. In the future we plan to carry out an annual survey; we will measure improvements against the baseline provided by these initial results as we integrate feedback from organisations into our grant making processes.

We monitor our grantmaking throughout the year but also carry out a detailed annual review of our main grants programmes to help us understand who and what we are funding. We analyse applications and grants made and use the data to inform our policy, future planning.

As we build our knowledge and learning from our own grant making, we are also looking to learn from external sources. We are carrying out a series of sector reviews to provide an overview of the context, needs and issues in each of the major sectors we fund. In time this work will allow us to add further clarity to our priorities. We also plan to identify strategic grant opportunities where our funding could have magnified impact.

Report of the Trustees

Achievements and Performance – Other Programmes

County Grants

£1,276,000

The County Grants programme supports the work of small organisations and charities in eight counties with which the Henry Smith Charity has a historical connection. The eight counties are Gloucestershire, Hampshire, Kent, Leicestershire, Suffolk, Surrey, East Sussex and West Sussex. Grants support work with people experiencing social and/or economic disadvantage (people with disabilities, for example) and work that tackles problems in areas of high deprivation broadly in line with our main grant objectives. To be eligible to apply for a County Grant, the organisation's annual income must be below £250,000, unless the organisation is working county-wide, in which case its income must be below £1 million.

Grant recommendations are made by County Trustees who use their local knowledge to assess the merit of applications; currently the Suffolk and Surrey schemes are administered by the local Community Foundations. County grant recommendations are approved at the quarterly Board meeting.

In 2018, 100 grants were awarded across the eight counties.

County	Grant Number	Grant Amount
East Sussex	18	£118,000
Gloucestershire	13	£160,000
Hampshire	10	£190,000
Kent	21	£267,000
Leicestershire	12	£141,000
Suffolk	8	£111,000
Surrey	11	£165,000
West Sussex	7	£124,000

Grants were put towards organisation running costs, salaries, project costs, or one-off capital expenditure such as building refurbishment or equipment.

Holiday Grants

£200,000

The Holiday Grants programme provides grants for short holidays and recreational trips for groups of children aged 13 and under in the UK who are disabled or disadvantaged. In 2018, we made 119 one off grants, at a total value of £199,996. Grants ranged between £500 and £2,500 and were made to schools, youth groups, not for profit organisations and charities. Trips ranged from days out up to week long stays in activity centres.

Through these grants we contributed towards the costs of holidays and recreational trips for around 5,100 children. Many of the trips we support would not take place without our funding. It is important to us that no child be excluded on financial grounds from a trip we are supporting, and all grants are awarded on this condition.

Report of the Trustees

Clergy and Christian Projects

£1,000,000

The Clergy and Christian Projects grants programme has three elements and in 2018 grants were made as follows:

Programme	Grant Amount
Grants to support individual clergy, managed through Church of England dioceses	£493,000
Bursaries for Church of England Ordinand training – 7 grants	£45,000
Grants to Christian Projects that explicitly promote the Christian faith in the UK – 15 grants	£462,000

In the Christian Projects programme we value projects that set out to nurture and grow people's journey in Christian faith and grow churches, and only support work that comes from a Church of England context, or that is fully ecumenical. There are four priority areas for this fund. All applications must explicitly address one or more of these priorities.

1. Meeting the spiritual needs of older people, including those with dementia
2. Meeting the spiritual needs of those with learning disability and those who have cognitive impairments
3. Reaching out to the unchurched – especially young people and young families- by nurturing their spiritual interest and well-being
4. Projects which support and care for Anglican clergy at times of acute need.

Kindred

£794,000

In line with Henry Smith's will, which included a legacy to help members of his family in financial need we award grants to individuals who are descendants of the sister of Henry Smith or adopted by a descendant. Our Kindred grant making goes directly to address financial need among the descendants of Henry Smith. Grants are awarded on a means-tested basis. A free confidential Helpline is also provided as an alternative means of assistance. More than 2,500 kindred are registered with us and 150 people received financial support in 2018.

Parishes

£566,000

The parish scheme is a separate fund within the endowment, representing approximately 2% of our assets. Grants are made to local organisations in specified parishes, based broadly on an allocation set out by the Trustees of Henry Smith's will for the relief of poverty in particular parishes. Local organisations make grants within each parish and report back annually on how the funds were spent.

Under the scheme we distribute annual grants of between £2,000 and £20,000 to 158 entities who then use the money for the relief of poverty within their designated parish. The entities include local ecclesiastical parishes, specially established local Henry Smith Charities and larger grant making organisations such as Trust for London and Cripplegate Foundation.

Report of the Trustees

Plans for Future Development

Looking forward to 2019 we plan to continue to operate our grant making programmes as outlined above. However, there are a number of planned developments for the organisation. The biggest priority for the Charity is to successfully implement our main grant making strategy. To do this we will continue to develop our learning and evaluation work and focus our funding in areas where we can maximise the impact of our grant making.

To move forward in a structured way the Senior Management Team have put in place an organisational plan, which has been reviewed and approved by Trustees. This plan sets out a schedule to fully implement the main grants strategy and run our other grant making programmes. It also covers support activities such as IT, HR, Governance and regulatory compliance. It provides a framework to enable Trustees to monitor the organisation and the executive team's performance and exercise appropriate governance.

In 2019 we will:

- Continue to review and refine our main grants assessment framework to ensure that we bring our learning and understanding of the different areas we fund into the process in an effective way.
- Continue to improve the way we capture and store information on our grant making database both to increase efficiency and improve our learning and evaluation.
- Develop a series of sector reviews that draw on internal and external information to inform our responsive grant making and identify opportunities for strategic funding.
- Provide additional support, training and development for our network of volunteer visitors to ensure quality and consistency.
- Continue with the ongoing Kindred widening project, where we are systematically reviewing the family tree using genealogical records and databases and identifying additional kindred who could be eligible for support. We are currently about halfway through this project.
- Complete a detailed review of the Parish grant programme
- Initiate a review of the County grant programme.

Report of the Trustees

Financial Review

Investments

The Henry Smith Charity is a permanent endowment, with assets held in perpetuity. These assets are the primary funding source for the Charity, so the performance of investments over the long-term is vitally important to the long-term sustainability of the Charity, and the impact it can make through the grants it awards.

The Charity operates a Total Return approach to investment, with power to spend both income and capital, provided the core endowment of the fund is maintained. The Charity has power under its Scheme to invest in stocks, shares, funds, securities and other property. The Trustees have appointed professional investment advisors, who advise on investment policy and strategy, asset allocation and the performance of managers.

Investment Policy

The investment portfolio has the primary long-term objective of maximising sustainable spending from the portfolio in order to support grant-making. The secondary long-term objective is to maintain the real value of the fund in perpetuity after spending. The Charity currently aims to spend 4% of the portfolio in grant-making over the long-term and the portfolio has a goal of returning an annual 4% real return over a business cycle (3-5 years).

It is recognised that in order to achieve the primary objective of sustaining a 4% spending rate over the long term, there will be periods of short-term volatility of investment returns. The investment strategy seeks to build a diversified portfolio that minimises the impact of short-term losses. Given the portfolio's strategic asset allocation and investment strategy it is understood that potential short-term losses are possible (in the order of losses up to 10-15% within a year, during a normal market cycle).

The Charity also recognises that there are several other forms of risk beyond short term volatility that need to be managed as part of the ongoing oversight monitoring process of the portfolio. These risks include the careful management of liquidity, the level of exposure to non-Sterling denominated assets, the level of overall leverage in the portfolio and risks associated with investing alongside investors with different goals.

Asset Allocation and Strategy

70% of the investment portfolio was allocated to growth assets during the year, to provide longer term returns, with the remaining 30% allocation invested in diversifying assets. Further details are given in note 9 to the accounts. Since year-end the allocations have been adjusted to protect against an increased risk of market falls, with a 65% allocation to growth assets and 35% to diversifying assets.

Total Return Approach to Investing

The Charity operates a Total Return approach to investments, with freedom to invest the entire endowment with the aim of maximising total returns regardless of whether those returns accrue by way of income or capital growth.

Investment Returns for 2018

Investment returns, net of fees, were just over £3m. While returns were modest in absolute terms, and the Charity's total funds reduced slightly in value after grant-making, the portfolio exceeded its performance benchmark and performed well in the market downturn in the last quarter of 2018. Total returns for the portfolio for the year were +0.4% and outperformed the portfolio benchmark by 1.8%. Over the last 3 years the portfolio has exceeded its long term benchmark of RPI + 4% by 1.5% per annum, a very pleasing result.

Report of the Trustees

Investment Costs

£11.3m (2017: £12.3m) was spent on our investments, of which over 50% was for management of investments in alternative assets. These are more expensive than traditional long-only investment, but over time we have obtained good investment returns with lower volatility, which has more than compensated for the additional fee costs.

The Charity aims to maintain transparency over the total fees paid on investments and regularly reviews manager fees to ensure they are matched by performance. To aim for good value, all investment performance is monitored net of fees. Most investment fees are charged internally within the investment funds; fees paid in cash during the year were much lower at £4.3m (2017: £4.4m).

“Core Endowment” (endowment funds)

Under the Total Return approach, the Charity must ensure that the value of total endowment funds does not fall below the Core Endowment. The Core Endowment is fixed at £276m, representing the value of the endowment as at 31 December 1991. Endowment funds in excess of the Core Endowment are known as the Unapplied Total Return; these are the accumulated returns from which the Charity may make funds available for grant-making. For internal purposes the value of endowment funds is also compared to an inflation-adjusted measure of the Core Endowment.

The Charity’s current policy is to transfer each year from the endowment funds, into the Main Unrestricted and Estates Restricted funds, 4.0% of the total value of the endowment as averaged over the previous 5 years (referred to as the “Distribution Rate”); these funds are then available for grant making and operations. These transfers are funded over time by the total investment returns achieved by the Charity’s endowment. The Trustees review the Distribution Rate from time to time and adjust as necessary to take account of prevailing rates of investment return.

The movements in Unapplied Total Return for 2018 are shown in note 7 to the accounts. The Charity transferred £33.8 million into the Main Unrestricted and Estates Restricted funds, calculated at a 4.0% Distribution Rate. For 2019 the Trustees have agreed a transfer of 4.0%, amounting to £35.8 million. At 31 December 2018, the endowment funds of £979m were well in excess of the Core Endowment.

Reserves (grant-making funds)

The Trustees have agreed that an amount of funds made available for grant-making should be retained in reserve, held as the Main Unrestricted and Estates Restricted funds, to provide flexibility should unforeseen circumstances arise to give an urgent need for additional grants or other spend. The Trustees have agreed that an amount should be held equal to at least one year’s costs of running the office. This target amounted to £2.0 million at 31 December, and the Charity’s Main Unrestricted and Estates Restricted of £1.3 million and £0.6 million respectively (out of total funds of £981 million) were slightly below this figure. During 2019 the Charity intends to increase reserves towards the target level.

Risk Management

The Trustees formally review risk on an annual basis as well as when issues arise. The Trustees also meet the auditors during the year to discuss recommendations arising from their annual audit, which inform our approach.

The Trustees have reviewed areas of potential risk for the Charity and concluded that there are sufficient controls in place across the organisation.

One of the key risks identified is that of substantial investment losses, which would reduce the amount of money available for grant-making over the longer-term and hence the impact of the Charity through the grants it awards; to address this the Charity has a diversified investment portfolio and processes in place to monitor cash flow and spending, which should minimise the potential for long term losses.

Report of the Trustees

Another key risk is business continuity in the event of a disaster; a policy and action plan have been adopted to ensure adequate control of this risk. Safeguarding is another key risk area, and a safeguarding policy for the Charity and training plan are in place.

Work has been ongoing with regards to Data Protection and the GDPR legislation. Key areas have been addressed, and work is ongoing to ensure full compliance across the Charity's activities.

Preparation of the Accounts on a Going Concern Basis

The Charity distributes no more than 4% of assets annually, including in 2018, and its total assets at 31 December 2018 were well in excess of the £276 million "core endowment" which must be preserved. The Trustees continue to consider the Charity to be a going concern and to prepare the accounts on this basis.

Remuneration of Key Management Personnel

The Trustees consider the Board of the Charity and the Senior Management Team (the Director, Head of Grants, Head of Grants Administration, Head of Learning and Evaluation, and Head of Finance) as comprising the key management personnel of the charity, in charge of directing and controlling the charity and running and operating the charity on a day to day basis.

No Trustees are remunerated by the Charity. Remuneration for the Senior Management Team is reviewed annually, with salary increases determined in light of inflation rates and affordability. Salary increases and remuneration levels are reviewed against other grant-making charities of a similar size and activity, to ensure remuneration is fair and not out of line with that generally paid for similar roles.

Conflicts of Interest

From time to time the Charity makes grants to organisations with whom one or more of its Trustees is connected, typically as a Trustee or member of staff. The Charity takes steps to ensure that decisions on these grants are made at arms-length, and in accordance with its policies for dealing with potential conflicts of interest

Trading Subsidiary and Fundraising

The Charity established a trading subsidiary in 2016, Henry Smith Trading Ltd, to manage the grant making services it provides to the Trusthouse Charitable Foundation. These services are provided by a separate staff team housed within the Charity.

The subsidiary is wholly owned by the Charity, with a share capital of £100, but the results of the subsidiary are not consolidated within these accounts as the overall impact on the financial statements is immaterial. For the year to 31st December 2018 the trading subsidiary had income of £163k and expenditure of £143k. The subsidiary donated its profit of £20k under Gift Aid to the Charity, leaving nil net assets at 31 December 2018.

The Charity has no fundraising activities requiring disclosure under S162A of the Charities Act 2011.

The Charity's objects and activities for the public benefit

The Charity is constituted as two funds, the Main Fund and Estates Fund. The objects of the Main Fund of the Henry Smith Charity have been changed at various points over the years, while maintaining the spirit of Henry Smith's original bequest. The objects as currently stated are as follows:

- For the relief of the poor kindred of Henry Smith;
- For hospitals, hospices and other forms of residential care or provision of health care for those who are sick or in need and for other institutions providing medical assistance for those in financial need;
- For the relief of poor, aged or sick persons and their spouses, widows, widowers and dependants;
- For the relief of poor, aged or sick members of the clergy and their spouses, widows, widowers and dependants;

Report of the Trustees

- For the relief, rehabilitation and training of disabled persons including disabled ex-Servicemen and war widows;
- For any medical research;
- For the promotion of moral welfare or social service; and
- For the relief and rehabilitation of those persons who are or have been slaves or serfs and their dependants who are in need or distress or for preventing their seizure.

The objects of the Estates Fund of the Henry Smith Charity are as follows:

- For the relief of poor, aged or infirm in specified, historic parishes;
- For the relief of poor, aged or infirm elsewhere in England and Wales;
- For the benefit of hospitals or convalescent homes in the specified, historic parishes; and
- For the benefit of hospitals or convalescent homes elsewhere in England and Wales.

The Charity's objects provide the framework within which more detailed funding priorities are set; these priorities will change from time to time as needs change and the funding landscape shifts. Current priorities for the Charity's grant programmes are set out on the Charity's website.

In summary, the Charity aims to bring about lasting change to people's lives, helping them to benefit from and contribute to society. This is achieved by funding organisations that work with people to reduce social and economic disadvantage.

Statement of Trustees' Responsibilities

The Trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The law applicable to charities in England and Wales requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Charity and of the incoming resources and application of resources of the Charity for that period.

In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Charity will continue in business.

The Trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Charity and enable them to ensure that the financial statements comply with the Charities Act 2011, the Charity (Accounts and Reports) Regulations 2008 and the provisions of the trust deed. They are also responsible for safeguarding the assets of the Charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Trustees on 12 June 2019

Noel Manns
Acting Chairman

Independent Auditor's Report to the Trustees of The Henry Smith Charity

Opinion

We have audited the financial statements of The Henry Smith Charity for the year ended 31 December 2018 which comprise the Statement of Financial Activities, Balance Sheet, Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the charity's affairs as at 31 December 2018 and of its incoming resources and application of resources, including its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the charity in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the charity's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Trustees are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Independent Auditor's Report to the Trustees of The Henry Smith Charity

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Charities (Accounts and Reports) Regulations 2008 require us to report to you if, in our opinion:

- the information given in the financial statements is inconsistent in any material respect with the Trustees' report; or
- sufficient accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit

Responsibilities of Trustees

As explained more fully in the Trustees' responsibilities statement, the Trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the charity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under section 144 of the Charities Act 2011 and report in accordance with the Act and relevant regulations made or having effect thereunder.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report to the Trustees of The Henry Smith Charity

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the charity's Trustees, as a body, in accordance with Part 4 of the Charities (Accounts and Reports) Regulations 2008. Our audit work has been undertaken so that we might state to the charity's Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and the charity's Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Crowe U.K. LLP

Statutory Auditor

London

Crowe U.K. LLP is eligible for appointment as auditor of the charity by virtue of its eligibility for appointment as auditor of a company under section 1212 of the Companies Act 2006.

Statement of Financial Activities for the Year Ended 31 December 2018

	Main Unrestricted Fund £'000	Estates Restricted Fund £'000	Endowment Funds £'000	2018 Total £'000	2017 Total £'000
INCOME					
Investment income (note 3)	-	-	12,986	12,986	12,419
Other income	17	-	99	116	153
Transfer to income (note 7)	33,040	760	(33,800)	-	-
TOTAL INCOME	<u>33,057</u>	<u>760</u>	<u>(20,715)</u>	<u>13,102</u>	<u>12,572</u>
EXPENDITURE (note 4)					
Expenditure on raising funds (investment costs)	-	-	11,301	11,301	12,296
Charitable activities					
Grant-making	33,074	566	-	33,640	32,120
TOTAL EXPENDITURE	<u>33,074</u>	<u>566</u>	<u>11,301</u>	<u>44,941</u>	<u>44,416</u>
Gains on investment and currency assets (note 9)	-	-	1,734	1,734	89,974
NET MOVEMENT IN FUNDS	<u>(17)</u>	<u>194</u>	<u>(30,282)</u>	<u>(30,105)</u>	<u>58,130</u>
TOTAL FUNDS BROUGHT FORWARD AT 1 JANUARY 2018	1,407	376	1,009,159	1,010,942	952,812
TOTAL FUNDS AT 31 DECEMBER 2018	<u>1,390</u>	<u>570</u>	<u>978,877</u>	<u>980,837</u>	<u>1,010,942</u>

The notes on pages 23 to 33 form part of these accounts.

All income and expenditure derive from continuing activities. The statement of financial activities includes all gains and losses recognised during the year and there is no difference between the results for the year stated above and their historical cost equivalents.

Balance Sheet as at 31 December 2018

	Main Unrestricted Fund £'000	Estates Restricted Fund £'000	Endowment Funds £'000	2018 Total £'000	2017 Total £'000
FIXED ASSETS					
Tangible Fixed Assets (note 8)	87	-	-	87	75
Investments (note 9)	31,791	-	979,130	1,010,921	1,040,235
Programme Related Investments (note 10)	-	-	20	20	90
Total Fixed Assets	<u>31,878</u>	<u>-</u>	<u>979,150</u>	<u>1,011,028</u>	<u>1,040,400</u>
CURRENT ASSETS					
Debtors (note 11)	200	-	770	970	1,025
Cash at bank	5,986	731	-	6,717	4,889
	<u>6,186</u>	<u>731</u>	<u>770</u>	<u>7,687</u>	<u>5,914</u>
CREDITORS					
Amounts falling due within one year (note 12)	(23,488)	(161)	(1,043)	(24,692)	(22,429)
NET CURRENT ASSETS/ (LIABILITIES)	<u>(17,302)</u>	<u>570</u>	<u>(273)</u>	<u>(17,005)</u>	<u>(16,515)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	14,576	570	978,877	994,023	1,023,885
CREDITORS					
Amounts falling due after one year (note 13)	(13,186)	-	-	(13,186)	(12,943)
NET ASSETS	<u>1,390</u>	<u>570</u>	<u>978,877</u>	<u>980,837</u>	<u>1,010,942</u>
FUNDS					
Main Endowment Fund	-	-	956,758	956,758	986,385
Estates Endowment Fund	-	-	22,119	22,119	22,774
Main Unrestricted Fund	1,390	-	-	1,390	1,407
Estates Restricted Fund	-	570	-	570	376
TOTAL FUNDS AT 31 DECEMBER 2018	<u>1,390</u>	<u>570</u>	<u>978,877</u>	<u>980,837</u>	<u>1,010,942</u>

Approved by the Trustees on 12 June 2019 and signed on their behalf by:

Noel Manns
Acting Chairman

James Hordern
Trustee

The notes on pages 23 to 33 form part of these accounts.

Cashflow Statement for the Year Ended 31 December 2018

	2018 £'000	2017 £'000
Net cash used in operating activities (note 17)	(30,475)	(31,136)
 Cash flows from investing activities		
Investment Income received	13,100	13,352
Payments for Investment Management and advice	(4,629)	(5,280)
Purchase of tangible fixed assets	(31)	(36)
Cash withdrawn from fixed asset investments to fund operating costs	23,793	24,017
Repayment of social investments	70	(7)
Net cash provided by investing activities	32,303	32,046
 <hr/>		
Change in cash and cash equivalents in the year	1,828	910
 <hr/>		
Cash and cash equivalents at 1 January 2018	4,889	3,979
Cash and cash equivalents at 31 December 2018	6,717	4,889

The notes on pages 23 to 33 form part of these accounts.

Notes to the Accounts

1. CHARITY INFORMATION

The Charity (registered no. 230102) is a public benefit entity established in the UK as a Trust governed by a Scheme of the Charity Commissioners dated 5 October 2000. It operates from its principal place of business, 65 Leadenhall Street, London EC3A 2AD.

2. ACCOUNTING POLICIES

Basis of Preparation

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of certain fixed asset investments, and in accordance with applicable accounting standards, the Statement of Recommended Practice: Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102) issued on 16 July 2014 and the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102) and the Charities Act 2011.

The financial statements have been prepared to give a 'true and fair' view and have departed from the Charities (Accounts and Reports) Regulations 2008 only to the extent required to provide a 'true and fair view'. This departure has involved following the Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) issued on 16 July 2014 rather than the previous Statement of Recommended Practice: Accounting and Reporting by Charities effective from 1 April 2005 which has since been withdrawn. Trustees have received relevant forecasts and budgets and are not aware of any material uncertainties surrounding the Charity's ability to continue as a going concern.

During 2016 a trading subsidiary, Henry Smith Trading Limited, was established with a share capital of £100, company number 10153657 and registered address at 65 Leadenhall St, London, EC3A 2AD. This subsidiary company is wholly owned by the Charity. The results of the trading subsidiary are not consolidated as the impact on the financial statements is immaterial.

Funds

The Charity's Funds include two permanent endowments. The Main Endowment Fund may be used to support all the Charity's objects. The Estates Endowment Fund may only be used to support charitable activities in specified, historic parishes in England. The assets of both funds are pooled and managed as a single investment portfolio; investment returns are allocated in proportion to the Funds' asset values. The Charity also holds funds to cover the costs of managing legacy activities related to the Equitable Charitable Trust. Once these legacy activities are completed any remaining funds will be made available for grant-making. At 31 December 2018 £151k was held within endowment funds for this purpose.

Income

Dividends are recognised as receivable when a security is listed as ex-dividend. Income from fixed interest investments is recognised when receivable and the amount can be measured reliably by the Charity; this is normally upon notification of the interest paid or payable by the bank or investment fund. Other investment income is recognised when notified as payable to the Charity by the relevant fund managers. Other income includes fees for administration services provided to Henry Smith Trading Limited and is recognised in line with the service provided.

Expenditure

Liabilities are recognised as expenditure when there is a legal or constructive obligation committing the Charity to the expenditure. Grants, both single and multi-year, are recognised in the accounts as liabilities after they have been approved by the Trustees, the recipients have been notified and there are no further terms and conditions to be fulfilled within the control of the Charity. In these circumstances there is a valid expectation by the recipients that they will receive the grant.

Expenditure on raising funds

Expenditure on raising funds includes the direct costs paid to service providers for managing the investment assets, the direct costs of activities including staff salaries and other expenditure, and an allocation of related support costs. Support costs are allocated according to an estimate of the proportional usage across different activities supported, generally on a staff time basis.

Notes to the Accounts

Charitable activities

The cost of charitable activities consists of grants awarded, the direct costs of grant making activities including staff salaries and other expenditure, and an allocation of related support costs.

Investments

Marketable investment assets are included in the financial statements at their fair values, either at closing market prices (listed investments) or through independent valuation (unlisted direct property) or from valuations provided by the investment manager (unlisted hedge funds, private equity and indirect property). Cash held for investment purposes is included within investments. The Charity enters into forward currency contracts to reduce currency exposure in its investment portfolio. The basis of fair value of these forward exchange contracts is estimated by using the gain or loss that would arise from closing the contract at the balance sheet date. All investment and currency gains and losses are recognised as incurred.

Pensions

The Charity operates a defined contribution scheme. Contributions payable to the scheme are included as expenditure in the period in which the Charity receives the related services from the employees.

Irrecoverable VAT

Irrecoverable VAT is included in the Statement of Financial Activities or Fixed Assets within the expenditure to which it relates.

Fixed assets

Leasehold improvements are included at cost and depreciated on a straight-line basis over the remaining term of occupation of the Charity's premises. Fixtures, fittings and equipment are included at cost and depreciated on a straight-line basis over 4 years. Assets below £1,000 in cost are not capitalised. The cost of assets includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Operating leases

Rental costs of operating leases where the Charity is a lessee are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Rental income from operating leases where the Charity is a lessor is recognised on a straight-line basis over the term of the relevant lease.

Key judgements and assumptions

In the application of the charity's accounting policies, Trustees are required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects the current and future periods. The key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are described in the accounting policies and are summarised below:

Valuation of investment properties – these are stated at their estimated fair value based on professional valuations as disclosed in note 9.

Notes to the Accounts

Valuation of private equity investments – these are stated at their estimated fair value based on valuations carried out by the fund managers.

Financial instruments

The Charity has financial assets and financial liabilities of a kind that qualify as basic financial instruments. Basic financial instruments are initially recognised at transaction value and subsequently measured at amortised cost using the effective interest method.

Financial assets held at amortised cost comprise cash at bank, together with trade and other debtors. Financial liabilities held at amortised cost comprise trade and other creditors.

Investments held as part of an investment portfolio are held at fair value at the Balance Sheet date, with gains and losses being recognised within income and expenditure.

3. INVESTMENT INCOME

	2018 £'000	2017 £'000
Equities	6,644	5,892
Fixed Income	446	371
Property	5,896	6,156
	<u>12,986</u>	<u>12,419</u>

4. EXPENDITURE

	Expenditure on Raising Funds £'000	Grant- making £'000	Governance £'000	Total 2018 £'000	Total 2017 £'000
Grants awarded (note 5)	-	31,858	-	31,858	30,932
Programme-related-investments costs	-	(6)	-	(6)	(419)
Direct costs					
Direct property costs	808	-	-	808	1,010
Investment management, administration and advice	10,344	-	-	10,344	11,145
Staff costs (note 6)	110	630	64	804	766
Auditors' remuneration	-	-	36	36	35
Other costs	-	181	37	218	177
	<u>11,262</u>	<u>32,663</u>	<u>137</u>	<u>44,062</u>	<u>43,646</u>
Support costs					
Staff costs (note 6)	6	333	12	351	321
Premises and office services	33	474	21	528	449
	<u>39</u>	<u>807</u>	<u>33</u>	<u>879</u>	<u>770</u>
Total expenditure	<u>11,301</u>	<u>33,470</u>	<u>170</u>	<u>44,941</u>	<u>44,416</u>

Notes to the Accounts

5. GRANTS AWARDED

	2018 £'000	2017 £'000
Grants to organisations	31,093	30,288
Grants to individuals	1,332	807
Grants returned or cancelled	(567)	(163)
Total Grants Awarded	31,858	30,932

Further analysis of our main grant awards is given in the Trustees' Report and a full listing of grants awarded to organisations is available on our website. This information has not been audited.

6. STAFF COSTS

	2018 £'000	2017 £'000
Wages and salaries costs	906	865
Social Security costs	97	86
Pension costs	108	100
Other benefits	44	36
	<u>1,155</u>	<u>1,087</u>

The average number of employees

Generating Funds	1.50	1.50
Grant-making	20.50	18.75
Governance	1.00	0.75
Total	23.00	21.00

The number of employees with emoluments greater than £60,000

£110,000-£120,000	1	1
£70,000-£80,000	1	1
£60,000-£70,000	-	1

No pension contributions were outstanding at the year end.

Total remuneration for key management personnel for the year amounted to £390,000 (2016: £376,000).

Notes to the Accounts

7. MOVEMENT IN UNAPPLIED TOTAL RETURN

The overall movement in unapplied total return in the year was as follows:

	2018 £'000	2017 £'000
Unapplied total return at 1 January 2018	733,159	674,336
Add: Income received	13,085	12,545
Less: Costs of generating funds	(11,301)	(12,296)
Add : Investment gains	1,734	89,974
Unapplied total return before transfer to income	736,677	764,559
Less: transfer to income	(33,800)	(31,400)
Unapplied total return at 31 December 2018	702,877	733,159
Add: core endowment	276,000	276,000
Endowment assets at 31 December 2018	978,877	1,009,159

The Charity is permitted to adopt a total return approach to its investments by Order of the Charity Commissioners for England and Wales dated 20th December 2006.

8. TANGIBLE FIXED ASSETS

	Fixtures, Fittings & Equipment £'000	Leasehold Improvements £'000	Total £'000
Cost at 1 January 2018	133	258	391
Additions	31	-	31
Cost at 31 December 2018	164	258	422
Accumulated depreciation at 1 January 2018	95	221	316
Depreciation charged in the year	15	4	19
Accumulated depreciation at 31 December 2018	110	225	335
Net Book Value at 31 December 2018	54	33	87
Net Book Value at 31 December 2017	38	37	75

Notes to the Accounts

9. INVESTMENTS

	2018	2017
	£'000	£'000
Listed Investments	355,399	405,350
Unlisted Investments	420,445	400,436
Investment Properties	176,593	179,066
Cash and other balances	58,384	55,383
Total Investments	1,010,921	1,040,235

The movement in market value of investments (excluding cash and other balances) was as follows:

	2018	2017
	£'000	£'000
<i>Listed Investments</i>		
Market Value at 1 January 2018	405,350	403,373
Investment (losses)/gains net of fees	(31,922)	45,161
Additions	21,022	25,824
Disposals	(39,051)	(69,011)
Market Value at 31 December 2018	355,399	405,350

<i>Unlisted Investments</i>		
Market Value at 1 January 2018	400,436	374,476
Investment gains net of fees	28,229	34,753
Additions	69,321	52,199
Disposals	(77,441)	(60,992)
Market Value at 31 December 2018	420,445	400,436

<i>Investment Properties</i>		
Market Value at 1 January 2018	179,066	173,608
Investment (losses)/gains net of fees	(1,826)	4,984
Additions	-	589
Disposals	(647)	(115)
Market Value at 31 December 2018	176,593	179,066

Total gains were made up as follows:	2018	2017
	£'000	£'000
Gains on investment assets	995	92,404
Other currency gains	739	(2,430)
Investment and currency gains	1,734	89,974

Notes to the Accounts

The market value of listed investments at the year-end was £355m (2017: £405m). None of these were UK-only investments (2017: Nil). The historical cost of listed investments was £210m (2017: £228m).

	2018 £'000	2017 £'000
Programme Related Investments	<u>20</u>	<u>90</u>

At 31 December 2018 the Charity had nine foreign exchange forward contracts open in eight currencies, with a notional sterling liability of £6.3 million. These contracts were entered into to mitigate the currency risk of being a UK based charity while holding global equity and hedge fund assets in local currencies. These foreign exchange forward contracts have all been revalued at the applicable year-end rates and the resulting unrealised losses are included within the overall value of the investments above. The settlement date for the contracts ranged from 31 January 2019 to 30 June 2019.

The Charity's direct holdings in property were valued at 31 December by currently Registered RICS Valuers employed by the Charity's property advisers, and in accordance with the RICS Valuation – Professional Standards (January 2014) published by the Royal Institution of Chartered Surveyors.

The Charity has committed to fund up to a further £98.3 m of capital calls from private equity funds. These calls will be funded from the sale of liquid assets across the investment portfolio.

The Charity holds 100 ordinary shares, comprising 100% of the share capital, in Henry Smith Trading Limited whose registered office is at 65 Leadenhall St, London, EC3A 2AD. During the year Henry Smith Trading made a profit of £20,000 on income of £163,000 and expenditure of £143,000. The net profit of £20,000 will be donated to the Charity under Gift Aid, leaving nil net assets in Henry Smith Trading Limited.

10. DEBTORS

	2018 £'000	2017 £'000
Rents receivable	331	428
Other debtors	61	72
Prepayments	578	525
	<u>970</u>	<u>1,025</u>

Notes to the Accounts

11. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £'000	2017 £'000
Grants payable	23,011	20,424
Accruals	1,089	1,448
Rental income in advance	592	557
	24,692	22,429

Movements in rental income in advance were as follows:

Balance brought forward at 1 January 2018	557	
Released to income in the year	(557)	
Deferred in the year	592	
	592	

12. CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2018 £'000	2017 £'000
Grants payable	12,971	12,726
Accruals and provisions	215	217
	13,186	12,943

13. MATURITY OF FINANCIAL LIABILITIES

	2018 £'000	2017 £'000
In one year or less, or on demand	24,692	22,429
In more than one year, but not more than two years	10,764	9,948
In more than two years, but not more than five years	2,247	2,874
In more than five years	175	121
	37,878	35,372

The movement in grants payable during the year was as follows:

	2018 £'000	2017 £'000
Grants payable at 1 January 2018	33,150	30,169
Grants awarded	32,425	31,095
Cancelled grants	(567)	(163)
Payments made	(29,026)	(27,951)
	35,982	33,150

Notes to the Accounts

14. RELATED PARTY TRANSACTIONS

Expenses of £2,221 (2017: £4,930) were reimbursed to five Trustees during the year (2017: nine) to cover travel and other related costs incurred by them in fulfilment of their duties. The Trustees received no remuneration during the year or in the previous year.

A subscription of £11,200 was paid during the year (2017: £10,800) to the Association of Charitable Foundations, of which Mr N Acland, Director of The Henry Smith Charity, is a Trustee.

During the year costs of £52k (2017: £53k) from the Charity were recharged to Henry Smith Trading Limited in relation to its management and administration. Amounts due to the Charity at 31 December 2018 were £55k, including gift aided profits of £20k which will be paid to the Charity in 2019. D Allam and V Dews, Trustees of The Henry Smith Charity, and N Acland, Director of The Henry Smith Charity, are also Directors of Henry Smith Trading Limited.

15. OPERATING LEASE COMMITMENTS

At year-end the Charity held a lease for its premises expiring in March 2026. Rental payments amounted to £220,000 in 2018 and are contracted to be £220,000 per annum from February 2017 until the end of the lease term.

At year-end the Charity held rental leases on its investment properties under which payments are receivable until lease expiry or term of notice as follows:

Year	Payments receivable in year £000
2019	1,703
2020	576
2021	1,119
2022	651
2024 and subsequently	31,166

The total payments receivable under rental leases at 31 December 2018, until expiry or term of notice for all leases, was £35.2 million.

16. RECONCILIATION OF NET MOVEMENT IN FUNDS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2018 £'000	2017 £'000
Net movement in funds	(30,105)	58,130
Investment (losses)/gains	(1,734)	(89,974)
Investment income and deposit interest	(13,003)	(12,445)
Investment management and advice	11,154	12,155
Depreciation	19	12
(Increase)/decrease in debtors	(43)	(376)
Increase in creditors	2,498	3,792
Currency (losses)/gains	739	(2,430)
Net cash flow from operating activities	(30,475)	(31,136)

Notes to the Accounts

17. FINANCIAL INSTRUMENTS

At year-end the Charity held financial assets at amortised cost of £7.1 million (2017: £5.4 million), financial assets at fair value through income or expenditure of £833.9 million (2017: £861.1 million) and financial liabilities at amortised cost of £37.3 million (2017: £35.0 million).

During the year the Charity's income, expenditure and net investment gains for financial assets at fair value was £7.1 million, £10.3 million and £3.5 million respectively (2017: £6.3 million, £11.3 million and £85.0 million).

During the year the Charity's income for financial assets at amortised cost was £0.1 million (2017: £0.1 million).

18. STATEMENT OF FINANCIAL ACTIVITIES FOR PRIOR YEAR

	Main Unrestricted Fund £'000	Estates Restricted Fund £'000	Endowment Funds £'000	2017 Total £'000
INCOME				
Investment income (note 3)	-	-	12,419	12,419
Other income	26	1	126	153
Transfer to income (note 7)	30,690	710	(31,400)	-
TOTAL INCOME	<u>30,716</u>	<u>711</u>	<u>(18,855)</u>	<u>12,572</u>
EXPENDITURE (note 4)				
Expenditure on raising funds	-	-	12,296	12,296
Charitable activities				
Grant-making	31,569	551	-	32,120
TOTAL EXPENDITURE	<u>31,569</u>	<u>551</u>	<u>12,296</u>	<u>44,416</u>
Gains on investment and currency assets (note 9)	-	-	89,974	89,974
NET MOVEMENT IN FUNDS	<u>(853)</u>	<u>160</u>	<u>58,823</u>	<u>58,130</u>
TOTAL FUNDS BROUGHT FORWARD AT 1 JANUARY 2017	2,260	216	950,336	952,812
TOTAL FUNDS AT 31 DECEMBER 2017	<u>1,407</u>	<u>376</u>	<u>1,009,159</u>	<u>1,010,942</u>

Notes to the Accounts

19. BALANCE SHEET FOR PRIOR YEAR

	Main Unrestricted Fund £'000	Estates Restricted Fund £'000	Endowment Funds £'000	2017 Total £'000
FIXED ASSETS				
Tangible Fixed Assets (note 8)	75	-	-	75
Investments (note 9)	30,563	-	1,009,672	1,040,235
Programme Related Investments (note 10)	-	-	90	90
Total Fixed Assets	<u>30,638</u>	<u>-</u>	<u>1,009,762</u>	<u>1,040,400</u>
CURRENT ASSETS				
Debtors (note 11)	573	-	452	1,025
Cash at bank	4,390	499	-	4,889
	<u>4,963</u>	<u>499</u>	<u>452</u>	<u>5,914</u>
CREDITORS				
Amounts falling due within one year (note 12)	(21,251)	(123)	(1,055)	(22,429)
NET CURRENT ASSETS/ (LIABILITIES)	<u>(16,288)</u>	<u>376</u>	<u>(603)</u>	<u>(16,515)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	14,350	376	1,009,159	1,023,885
CREDITORS				
Amounts falling due after one year (note 13)	(12,943)	-	-	(12,943)
NET ASSETS	<u>1,407</u>	<u>376</u>	<u>1,009,159</u>	<u>1,010,942</u>
FUNDS				
Main Endowment Fund				
Estates Endowment Fund	-	-	986,385	986,385
Main Unrestricted Fund	-	-	22,774	22,774
Estates Restricted Fund	1,407	-	-	1,407
	-	376	-	376
TOTAL FUNDS AT 31 DECEMBER 2017	<u>1,407</u>	<u>376</u>	<u>1,009,159</u>	<u>1,010,942</u>